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## The U.S. Balance of Payments in 1964

FOR 1964 as a whole the adverse balance (as measured by changes in monetary reserves and liquid liabilities to foreigners) amounted to \$2.8 billion. Of this total the fourth quarter alone accounted for \$1.3 billion.

The balance of payments had improved significantly in the last two quarters of 1963 and the first quarter of 1964. It returned to a more adverse position during the next two quarters, although it remained considerably improved compared with the average rate from 1958 to mid-1963. In the fourth quarter, however, the balance of payments was set back markedly by a sharply unfavorable movement.

The international reserves of the U.S. monetary authorities rose by \$151 million during the fourth quarter. While the monetary gold stock declined by \$172 million, holdings of convertible foreign currencies advanced by \$205 million and the gold tranche position in the International Monetary Fund (IMF) increased by \$118 million. Much of the rise in the latter two international accounts represented credits obtained by the United Kingdom from the United States and the IMF during the sterling crisis in November. While these credits improved the international reserves of the United States, to the extent that they also increased liquid liabilities, they had no effect on the overall balance.

Total U.S. liquid liabilities in the fourth quarter rose by \$1,491 million. Foreign holdings of nonmarketable, medium-term convertible U.S. Government securities were up by \$50 million, and foreign deposits in U.S. banks, holdings of marketable Government

securities and of private marketable short-term obligations rose by \$1,441 million.

Special Government transactions in the fourth quarter totaled \$183 million. These included net advances of \$147 million by foreign governments on military contracts, and nonscheduled repayments of \$7 million on U.S. Government loans. There was also a net increase of \$29 million in foreign holdings of nonconvertible medium-term Government securities.

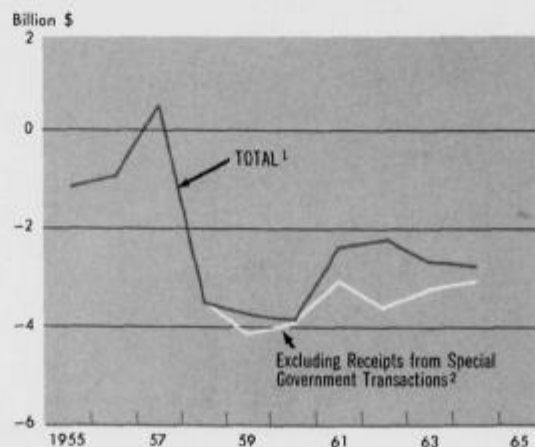
Net receipts from these special Government transactions totaled \$292 million during all of 1964, down from \$617 million in the preceding year. Both Government loan prepayments and advances on military contracts were lower in 1964.

The seasonally adjusted balance exclusive of the special Government accounts—the balance on “regular” types of transactions—was \$1,505 million in the fourth quarter. This adverse balance has been exceeded only in the third quarter of 1950, following the outbreak of the Korean conflict.

For the entire year 1964 the unfavorable balance on “regular” types of transactions totaled \$3,053 million, an improvement of \$208 million from the 1963 balance.

For the year, the improvement over 1963 was due to an expansion in net receipts from merchandise trade and from income on investment which exceeded the increase in private capital outflows. From the third to the fourth quarter, however, the increase in private

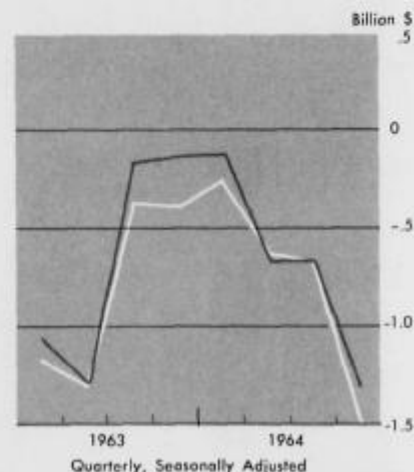
Balance on International Transactions\*



\*As measured by changes in U.S. monetary reserves and in liquid liabilities including U.S. Government nonmarketable, medium-term convertible securities, which equals balance on all other international transactions. <sup>†</sup>Table 1 line C1 <sup>‡</sup>Table 1 line A13

U.S. Department of Commerce, Office of Business Economics

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capital outflows exceeded the rise in net merchandise trade receipts, while receipts from income on investment declined.

### Special Factors Affecting the Fourth Quarter Balance

Several special situations contributed to the shift in the balance in the fourth quarter.

The major impact from the British sterling crisis on the U.S. balance of payments arose from the British decision to postpone the interest and principal payments of \$138 million due on their U.S. Government loans, ordinarily paid at the end of each year. The British imposition of a 15 percent surcharge on imports at the end of October, a move which affected about 50 percent of U.S. sales there, did not appear to have appreciable influence on our fourth quarter exports.

Reports from nonfinancial corporations indicate withdrawals of about \$100 million in short-term funds from the United Kingdom in the fourth quarter. These withdrawals followed a somewhat larger increase in such assets in the previous quarter. The fact that both movements were exceptionally large compared with previous experience may indicate that they reflect special transactions. Furthermore, the withdrawals of funds from the United Kingdom were nearly offset by larger investment of such funds in continental Europe, and thus did not result in a major improvement in the U.S. balance of payments.

Concern about the future of sterling may also have affected confidence in the dollar, and may have led to transactions which accentuated the adverse development in our balance of payments. As a defensive measure to protect the dollar in international financial markets, the United States raised its discount rate from 3.5 to 4 percent in November after the Bank of England increased its discount rate from 5 to 7 percent and other countries raised theirs.

Fourth quarter purchases of new foreign securities were very heavy following the signing of the Interest

Equalization Tax Act early in September. The new law ended uncertainties which dampened U.S. transactions in such securities during the year in which the bill was pending before Congress. Purchases in the fourth quarter included a large amount of Canadian issues, and also \$100 million of issues of the Inter-American Development Bank (IADB). Much of the fourth quarter outflow of \$590 million for new issues, after seasonal adjustment, no doubt was of a nonrecurring nature, and the outflow may be expected to return to an annual rate similar to the \$1.1 billion for the year 1964.

The second stage in U.S. corporate tax reduction effective in January 1965 may have caused some deferral of income returns on foreign investments in the fourth quarter, but not as much as had taken place a year earlier, when the first stage of the tax reduction occurred.

Domestic strikes and threats of work stoppages also affected the U.S. balance of payments accounts in the fourth quarter. The longshoremen's strike on the Atlantic and Gulf coasts began on October 1 but was quickly halted under a Taft-Hartley injunction and did not resume until January 11 of this year. It is difficult to determine the amount of merchandise trade that may have moved in anticipation of the strike. Rough estimates suggest that in September exports may have included between \$50-75 million of strike-anticipated shipments and that in November and December exports may have been inflated by about \$150-175 million.

The work stoppages in the domestic automotive industry during October and November appear to have reduced significantly U.S. exports of automobiles and parts in the fourth quarter. In Canada, assembly operations halted because of a shortage of parts and, late in the quarter, because of a Canadian strike. These developments led to reduced earnings on U.S. investments in Canada and to higher capital outflows to that country. The total adverse effect on the balance of payments of these occurrences in the automotive industry may have been about \$125 million.

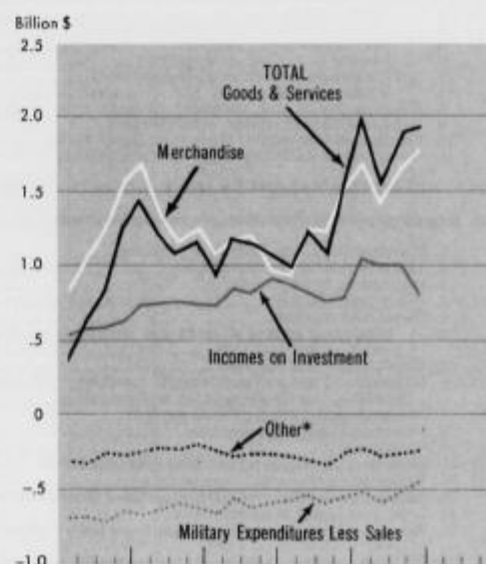
Imports were affected much less than exports by accelerated movements in anticipation of the dock workers' strike. They were, however, increased by the higher demand for steel in expectation of a possible work stoppage in the United States later this spring, and by replenishment of coffee inventories.

The effect of the unfavorable tempo-

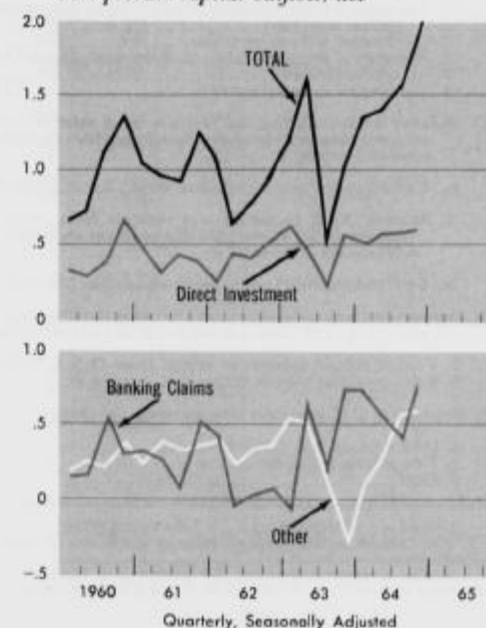
CHART 8

### Major Balance of Payments Accounts

*Net exports of goods and services\**



*U.S. private capital outflow, net*



\*Includes remittances and pensions

U.S. Department of Commerce, Office of Business Economics

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Table 1.—Analysis of U.S. Balance of Payments, Seasonally Adjusted, Excluding Military Grant Aid

(Millions of dollars)

	Calendar year		1963				1964			
	1963	1964*	I	II	III	IV	I*	II*	III*	IV*
Transactions other than changes in official monetary assets and in liquid liabilities (including nonmarketable, medium-term, convertible Government securities)										
<b>I. U.S. PAYMENTS (DEBITS) RECORDED</b>	<b>25,398</b>	<b>29,781</b>	<b>8,724</b>	<b>9,713</b>	<b>8,482</b>	<b>8,471</b>	<b>9,289</b>	<b>9,784</b>	<b>10,498</b>	<b>10,712</b>
1. Imports of goods and services	25,386	28,314	8,327	8,431	8,788	8,744	8,806	7,039	7,138	7,332
2. Merchandise	18,906	18,638	4,037	4,213	4,368	4,370	4,416	4,808	4,710	4,901
3. Military expenditures <sup>1</sup>	2,897	2,807	747	731	711	706	717	726	694	688
4. Other services	4,442	8,869	1,543	1,688	1,664	1,657	1,672	1,706	1,728	1,763
5. Remittances and pensions	820	830	209	209	206	203	197	206	212	215
6. Government grants and capital outflows	4,522	4,277	1,000	1,334	1,008	1,117	928	1,103	1,096	1,148
7. (Transactions resulting in direct dollar outflows from the United States)	2,835	3,670	809	1,061	816	880	781	911	821	887
8. (Dollar payments to foreign countries and international institutions) <sup>2</sup>	887	707	191	273	192	237	147	189	177	261
9. U.S. private capital	4,300	6,300	1,128	1,437	584	1,008	1,350	1,406	1,678	2,047
10. Direct investments	1,889	2,297	618	477	235	648	613	668	677	628
11. Long-term portfolio	1,085	1,996	546	405	308	236	224	283	697	840
12. Short-term	734	2,107	-36	643	-4	213	613	555	494	579
<b>II. U.S. RECEIPTS (CREDITS) RECORDED</b>	<b>35,485</b>	<b>37,913</b>	<b>7,788</b>	<b>8,429</b>	<b>8,836</b>	<b>8,888</b>	<b>9,306</b>	<b>9,124</b>	<b>9,614</b>	<b>9,867</b>
1. Exports of goods and services	32,029	35,328	7,535	7,977	8,037	8,471	8,984	8,838	9,247	9,454
2. Merchandise	21,989	28,319	4,900	5,473	5,610	5,917	6,108	6,063	6,373	6,680
3. (Financed by Government grants and capital)	2,789	8,839	844	887	627	671	637	710	736	752
4. Military sales <sup>3</sup>	609	708	181	200	117	155	210	163	183	215
5. Income on investments, private	3,908	4,708	1,036	990	963	1,001	1,214	1,183	1,231	1,088
6. Income on investments, Government	498	450	123	126	126	126	131	131	131	63
7. Other services	4,805	5,284	1,205	1,306	1,222	1,272	1,351	1,318	1,361	1,402
8. Repayments on U.S. Government loans, scheduled	943	872	141	156	183	183	159	158	184	94
9. Repayments and credits, nonscheduled	328	122	25	24	241	28	52	23	30	7
10. Foreign private capital other than liquid funds	310	271	-24	306	113	-45	22	121	-1	119
11. Government liabilities other than marketable or convertible securities	388	425	103	-4	22	285	91	-37	178	263
<b>SELECTED BALANCES (NET CREDITS +, DEBITS -)</b>										
<b>A. Regular types of transactions, seasonally adjusted:</b>										
1. Merchandise trade, excluding military	4,988	9,581	933	1,260	1,242	1,538	1,602	1,448	1,666	1,785
2. Military sales and expenditures	-2,228	-2,048	-666	-825	-604	-653	-607	-577	-513	-483
3. Income on investments	3,273	3,858	884	814	788	795	1,028	1,001	1,018	811
4. Other services	-343	-181	-83	-103	-124	-88	-34	-73	-53	-21
5. Goods and services	5,424	8,208	1,206	1,446	1,304	1,727	2,179	1,799	2,108	2,122
6. (Excluding exports of goods and services financed by government grants and capital outflows)	8,347	4,807	258	441	543	804	1,117	841	1,816	1,839
7. Remittances and pensions	-828	-830	-209	-209	-206	-203	-187	-206	-212	-216
8. Government grants and capital outflows, less changes in associated liabilities, less scheduled loan repayments	-3,781	-3,057	-890	-1,170	-791	-936	-778	-908	-934	-1,027
9. Domestic and foreign private capital	-3,244	-4,100	-1,149	-876	-442	-767	-734	-737	-1,236	-1,899
10. Short-term	-734	-1,999	?	-495	31	-280	-601	-638	-241	-960
11. Miscellaneous Government nonliquid liabilities	-1	217	(3)	1	3	-3	4	-1	294	(3)
12. Errors and unrecorded transactions	-339	-603	-116	-11	-267	57	-138	-31	-247	-477
13. Balance on regular types of transactions (seasonally adjusted)	-3,263	-3,883	-1,176	-1,314	-379	-398	-623	-659	-659	-1,596
14. Less: Net seasonal adjustments			-347	-102	441	18	-238	-36	353	18
15. Balance on regular types of transactions before adjustment	-3,263	-3,883	-813	-1,212	-820	-416	-647	-1,013	-1,523	-1,523
<b>B. Special Government transactions (not seasonally adjusted)</b>										
1. Nonscheduled receipts on Government loans	328	122	25	24	241	28	52	32	80	7
2. Liabilities associated with military exports <sup>4</sup>	354	200	30	-5	80	230	151	-64	-28	147
3. Net sales of nonmarketable, medium-term, nonconvertible securities	-43	-30	68	-16	-98	-1	-65	-3	-2	29
4. Dollar securities	31	-18	58	78	-45	-1	-3	-2	-4	-1
5. Foreign currency securities	-74	-42	5	-89	-43	-60	(3)	(3)	(3)	30
6. Net sales of nonmarketable, medium-term, convertible securities	702	875	250	162	175	25	122	203	50	50
7. Dollar securities	160		125		85					
8. Foreign currency securities	542	875	125	162	190	25	122	203	50	50
<b>C1. Balance A+B excluding net receipts from sales of nonmarketable, medium-term, convertible Government securities (including seasonal adjustment of items in A)</b>	<b>-2,644</b>	<b>-2,781</b>	<b>-1,062</b>	<b>-1,286</b>	<b>-133</b>	<b>-134</b>	<b>-119</b>	<b>-841</b>	<b>-659</b>	<b>-3,222</b>
1a. Excluding seasonal adjustment (equals line 52, table 3)	-2,644	-2,781	-706	-1,196	-604	-192	217	-808	-1,012	-1,340
2. Balance A+B including net receipts from sales of nonmarketable, medium-term, convertible Government securities (including seasonal adjustment of items in A)	-1,942	-2,386	-712	-1,143	23	-869	-119	-539	-454	-1,212
2a. Excluding seasonal adjustment (equals line 52a, table 3)	-1,942	-2,386	-366	-1,041	-419	-127	217	-604	-800	-1,290
<b>D. Increase in short-term official and banking liabilities and in foreign holdings of marketable U.S. Government bonds and notes (decrease-)</b>	<b>1,864</b>	<b>2,306</b>	<b>523</b>	<b>887</b>	<b>198</b>	<b>633</b>	<b>-145</b>	<b>201</b>	<b>738</b>	<b>1,441</b>
1. Foreign holders other than official (lines II-3, 4, 5; table 6)	694	1,317	397	344	47	0	235	109	253	622
2. Foreign official holders (Lines II-1, 2; table 6)	970	989	-74	778	145	128	-309	62	186	819
<b>E. Decrease in U.S. monetary reserve assets (increase-)</b>	<b>378</b>	<b>171</b>	<b>32</b>	<b>124</b>	<b>287</b>	<b>-6</b>	<b>-51</b>	<b>203</b>	<b>70</b>	<b>-151</b>
1. IMF gold tranche position	39	206	-48	2	80	15	131	118	135	-118
2. Convertible currencies	-113	-220	-35	6	-28	-68	-228	258	-45	-265
3. Gold	581	125	111	136	196	38	45	-72	-20	177

\* Revised. \* Preliminary. \* Less than \$500,000.

1. The data on military expenditures for the fourth quarter of 1964 are still subject to major adjustments.

2. Under agreement between the Agency for International Development and recipient countries some of these funds are to be used for procurement in the United States.

3. See footnote 2 of table 4.

4. Includes Export-Import Bank Portfolio Fund Certificates of Participation.

rary influences arising from the special situations in the fourth quarter, including the bulge in purchases of new securities, extraordinary imports, effects of automotive work stoppages and deferrals of the British loan payments and of income on investment, probably amounted to about \$825 million. Temporary favorable transactions, including strike-inflated exports, a large transfer of accumulated earnings from a Canadian subsidiary to an American parent company, receipts of \$100 million from long-term time deposit certificates sold to the IADB, and a \$45 million purchase of special nonconvertible time deposit certificates by a foreign country, may have amounted to about \$325 million. Thus, net payments attributable to these temporary transactions may have been about \$500 million. If they are excluded, the overall adverse balance on "regular" transactions in the fourth quarter, after seasonal adjustment, would be about \$1.0 billion, still higher than the average balance of \$640 million in the two preceding quarters.

### Private Capital Flows

Net outflows of U.S. private capital in 1964 amounted to \$3.4 billion, an increase of \$2.1 billion over 1963. Direct investment abroad in 1964 was up by \$400 million over 1963 to a level exceeded only in 1957. New foreign security issues were somewhat reduced last year, despite the fourth quarter bulge. Net U.S. sales of outstanding foreign securities amounted to \$193 million last year in contrast with net U.S. purchases of \$49 million in 1963, reflecting largely the restraining effects of the interest equalization tax.

Most of the year-to-year upsurge in private capital flows was in lending by banks and, to a lesser extent, by non-financial firms. Foreign lending reported by banks, both short- and long-term, amounted to about \$1.5 billion in 1963 and rose to \$2.5 billion in 1964, while loans and acquisitions of short-term assets reported by commercial firms shifted from a liquidation of \$0.2 billion in 1963 to an outflow of \$0.9 billion in 1964. This sudden increase

reflected in part the increasing pressures of demand against available supplies in the capital markets of many foreign countries. Directly or indirectly such capital outflows also substituted for sales of securities that were shut off by the interest equalization tax.

Table 5 points up the extent of the rise in short-term bank lending that began late in 1963 and continued through 1964, aside from a seasonal third quarter return flow from Canada

and other financial centers. The fourth quarter flow was largely in the category of loans and acceptance credits, which were provided mainly to Japan and less-developed countries; this suggests that they were not primarily quickly-reversible year-end cash flows of a temporary nature.

Long-term bank lending also was at a record rate during 1964 (table 5), and appeared to be accelerating toward the end of the year. Flows to Europe were

Table 2.—U.S. Balance of Payments by Major Components,<sup>1</sup> Seasonally Adjusted

(Millions of dollars)

	Calendar year		1964			
	1963	1964 *	I	II	III *	IV *
<b>Goods and Services, Government Assistance and Long-Term Capital Accounts<sup>2</sup></b>						
A. 1. Nonmilitary merchandise exports.....	21,969	25,219	0,108	4,033	5,373	6,885
2. Less: Those financed by Government grants and capital.....	2,720	2,839	637	719	736	736
3. Merchandise exports, other than those financed by Government grants and capital.....	19,249	22,380	5,471	3,313	4,637	6,149
4. Nonmilitary merchandise imports.....	-19,996	-18,638	-4,415	-4,606	-5,710	-4,901
5. Balance on trade excluding exports financed by Government grants and capital.....	2,873	3,742	1,055	738	309	1,048
6. Nonmilitary services exports.....	9,372	10,640	2,006	2,034	2,403	2,653
7. Less: Those financed by Government grants and capital.....	601	581	135	145	149	168
8. Service exports other than those financed by Government grants and capital.....	8,771	10,059	2,531	2,489	2,546	2,485
9. Nonmilitary service imports.....	-5,442	-6,809	-1,072	-1,706	-1,728	-1,703
10. Balance on services other than those rendered under Government grants and capital.....	2,329	3,250	659	783	817	637
11. Balance.....	4,602	6,992	1,714	1,521	1,127	1,685
<b>B. Other major transactions</b>						
1. Military expenditures <sup>3</sup> .....	-2,807	-2,807	-717	-728	-804	-808
2. Military cash receipts.....	332	364	371	55	104	302
3. Government grants and capital-dollar payments to foreign countries and international institutions.....	-687	-707	-147	-195	-177	-101
4. Repayments on U.S. Government loans excluding fundings by new loans and repayments on military credits.....	708	572	183	174	165	50
5. U.S. direct and long-term portfolio investments abroad.....	-3,678	-4,253	-740	-851	-1,174	-1,479
6. Foreign direct and long-term portfolio investments in the United States.....	820	163	13	114	-64	80
7. Remittances and pensions.....	-820	-830	-107	-200	-212	-215
8. Net sales of nonmarketable medium-term, nonconvertible securities <sup>4</sup> .....	-43	-38	-56	-8	-2	29
9. Miscellaneous Government nonliquid liabilities.....	1	287	4	-1	204	(-)
10. Balance.....	-0,121	-6,717	-1,204	-1,013	-1,788	-2,022
<b>C. Balance on Goods and Services, Government Assistance and Long-Term Capital Accounts.....</b>	<b>-1,899</b>	<b>121</b>	<b>620</b>	<b>-22</b>	<b>-71</b>	<b>-338</b>
<b>D. Recorded U.S. private short-term capital outflow less foreign short-term credits to the United States (excluding foreign liquid dollar holdings).....</b>	<b>-788</b>	<b>-1,080</b>	<b>-861</b>	<b>-638</b>	<b>-341</b>	<b>-509</b>
<b>E. Unrecorded transactions.....</b>	<b>-339</b>	<b>-890</b>	<b>-138</b>	<b>-31</b>	<b>-247</b>	<b>-477</b>
<b>F. Net sales of nonmarketable, medium-term, convertible Government securities.....</b>	<b>702</b>	<b>379</b>		<b>122</b>	<b>233</b>	<b>50</b>
<b>G. Balance C+D+E.....</b>	<b>-2,544</b>	<b>-2,761</b>	<b>-119</b>	<b>-641</b>	<b>-459</b>	<b>-1,322</b>
<b>H. Balance C+D+E+F.....</b>	<b>-1,842</b>	<b>-2,382</b>	<b>-119</b>	<b>-519</b>	<b>-486</b>	<b>-1,272</b>

\* Revised \* Preliminary \* Less than \$500,000.

1 Excludes military transfers under grants.

2 Short-term capital movements between parent companies and their foreign affiliates are reported as part of direct investment.

3 The data on military expenditures for the fourth quarter of 1964 are still subject to major adjustments.

4 See footnote 2 to table 4.

5 Includes portfolio fund certificates sold abroad by Export-Import Bank.

NOTE.—For reconciliation of data on Government transactions shown in this table with those shown in tables 1 and 3, see table 4.

Table 3.—United States Balance of Payments by Area—

(Million)

Line	Type of transaction	All Areas								Western Europe				Eastern Europe				Canada						
		1963		1964				1963		1964		1963		1964		1963		1964						
		Year	III	IV	Year	I	II	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV			
1	Exports of goods and services.....	22,827,538	2,148	n.a.	2,827,538	2,827,538	n.a.	n.a.	n.a.	11,557,523	2,523	3,091	n.a.	n.a.	n.a.	211	24	27	338	24	47,548	1,351	1,543	
2	Goods and services transferred under military grants, net.....	1,482	134	299	n.a.	309	517	n.a.	n.a.	753	70	87	n.a.	n.a.	n.a.									
3	Goods and services excluding transfers under military grants.....	12,020,754	8,920	34,523	8,789	9,120	5,722	2,889	16,814	2,443	3,004	12,151	2,790	3,341	211	39	27	338	24	47,548	1,351	1,543		
4	Merchandise, adjusted, excluding military.....	23,980,200	0,120	28,219	6,716	6,290	6,034	6,290	7,840	1,727	2,123	8,570	1,948	2,411	176	27	27	338	24	37,410	961	1,110		
5	Transportation.....	2,078	325	537	2,258	553	477	588	567	981	282	248	1,062	278	273	16	8	5	17	3	134	24	24	
6	Travel.....	934	298	197	1,000	253	340	337	228	111	30	20	167	49	34	(+)	(+)	(+)	(+)	(+)	372	120	67	
7	Miscellaneous services.....	1,660	395	478	1,785	424	430	430	501	688	104	104	718	100	208	12	2	2	12	2	188	57	54	
8	Private.....	233	88	62	254	59	65	64	70	69	19	17	72	15	18	1	(+)	1	1	(+)	1	2	1	
9	Government, excluding military.....	899	108	190	789	193	180	180	206	643	83	119	612	141	178						18	4	4	
10	Military expenditures.....	3,060	643	977	3,807	925	850	823	970	507	102	118	586	132	160						441	78	127	
11	Income on investments.....	910	228	247	1,098	253	275	269	347	208	57	57	280	62	72						314	79	80	
12	Direct investments.....	408	189	198	464	94	112	123	127	176	32	103	110	30	21						1			
13	Other private.....																							
14	Government.....																							
15	Imports of goods and services.....	26,385,734	6,730	28,431	6,476	7,061	7,441	7,314	9,213	2,434	2,368	8,394	2,840	3,541	101	30	34	120	35	39,498	1,409	1,282		
16	Merchandise, adjusted, excluding military.....	16,968,434	4,530	18,935	4,353	4,695	4,088	4,031	4,714	1,166	1,310	4,128	1,241	1,454	83	28	19	100	27	27,315	944	907		
17	Transportation.....	2,310	335	541	2,450	554	453	504	597	1,267	271	285	1,368	388	312						129	33	31	
18	Travel.....	2,070	300	398	2,176	358	374	360	417	688	286	120	703	306	120						522	280	86	
19	Miscellaneous services.....	422	110	116	424	100	103	100	113	235	60	61	248	62	60	(+)	(+)	(+)	(+)	(+)	62	17	14	
20	Private.....	418	157	162	418	157	162	158	128	114	33	29	122	38	13						11	3	3	
21	Government, excluding military.....	2,897	711	705	2,807	717	728	584	888	1,490	362	372	1,480	352	347						278	64	36	
22	Military expenditures.....																							
23	Income on investments.....	794	180	244	892	206	194	245	442	87	145	145	464	93	124	(+)	(+)	(+)	(+)	(+)	282	47	40	
24	Direct investments.....	400	194	110	462	111	110	109	122	231	46	62	286	62	71						67	16	14	
25	Other private.....																							
26	Government.....																							
27	Balance on goods and services.....	7,187	457	2,497	n.a.	2,468	2,353	n.a.	n.a.	3,344	39	791	n.a.	n.a.	n.a.	119	9	43	278	19	14	582	-58	281
28	Excluding transfers under military grants.....	6,488	323	2,188	2,369	2,333	2,042	1,261	2,972	1,407	13	614	2,209	232	829	119	9	43	278	19	14	582	-58	281
29	Unilateral transfers net (to foreign countries (-)).....	-4,204	-797	-437	n.a.	-768	-1,252	n.a.	n.a.	-1,189	-189	-189	n.a.	n.a.	n.a.	-27	-9	-10	-26	-8	-29	-7	-8	
30	Excluding military transfers.....	-2,722	-883	-719	-2,734	-641	-751	-647	-677	-438	-110	-110	-272	-365	-303	-27	-9	-10	-26	-8	-29	-7	-8	
31	Private remittances.....	-504	-136	-151	-639	-127	-139	-137	-150	-158	-46	-46	-162	-41	-40	-26	-6	-7	-27	-0	-7	-5	-1	
32	Government.....																							
33	Military grants of goods and services.....	-1,482	-134	-229	n.a.	-309	-517	n.a.	n.a.	-753	-70	-87	n.a.	n.a.	n.a.									
34	Other grants.....	-1,896	-466	-190	-1,900	-407	-548	-438	-452	-148	-38	-38	-91	-27	-28									
35	Pensions and other transfers.....	-202	-93	-69	-281	-67	-57	-72	-74	-130	-31	-31	-132	-37	-37									
36	U.S. capital, net (increase in U.S. assets (-)).....	-5,454	-320	-1,150	-8,437	-1,637	-2,035	-1,674	-3,682	-1,645	112	-174	-2,287	-434	-729	-58	5	-43	-27	3	-948	15	58	
37	Private, net.....	-4,307	-259	-1,301	-8,404	-1,314	-1,593	-1,173	-2,347	-1,797	-139	-203	-2,498	-412	-655	-28	2	-44	-2	-1	-847	14	57	
38	Direct investments, net.....	-1,888	-146	-671	-2,207	-583	-893	-477	-744	-587	-92	-242	-1,338	-318	-277						-839	-54	-111	
39	New foreign securities sold in the United States.....	-1,286	-180	-63	-1,080	-127	-284	-71	-581	-372	-19	-34	-34		-24						-583	-91	-24	
40	Redemptions.....	105	52	30	183	54	39	38	63	22	10	8	33	7	18						107	27	23	
41	Other (transfers in foreign securities).....	-49	16	57	183	10	40	35	24	3	-2	60	167	12	21						37	-3	33	
42	Other long-term, net.....	-691	-114	-329	-1,279	-267	-127	-504	-261	-584	-83	-268	-828	-108	-263	-18	2	-10	6	17	-25	0	0	
43	Short-term, net.....	-734	89	-362	-1,079	-364	-603	-190	-679	-70	47	-23	-383	-119	-0	(+)	(+)	(+)	(+)	(+)	34	131	146	
44	Government, net.....	-1,687	-78	-409	-1,577	-245	-444	-358	-676	167	281	28	-206	-22	-74	-31	3	1	-29	4	1	1	4	
45	Long-term capital.....	-2,133	-411	-582	-2,300	-614	-963	-601	-932	-304	-54	-80	-469	-122	-122	(+)	(+)	(+)	(+)	(+)				
46	Repayments on U.S. Government loans, scheduled.....	843	168	238	272	144	130	162	148	200	66	59	121	48	28	14	8	1	14	8				
47	Repayments and rollovers, nonscheduled.....	820	241	26	122	63	23	39	7	377	280	4	24	22	2									
48	Foreign currency holdings and short-term claims, net (increase (-)).....	-445	-33	-103	-11	70	56	26	-178	-15	6	16	119	48	10	-45	-4	(+)	-53	-5	1	1	4	
49	Foreign capital (lines 44-48), net (increase in U.S. liabilities (+)).....	590	139	283	694	110	78	174	342	476	184	124	142	-21	116	(+)	(+)	(+)	(+)	(+)	48	-2	49	
50	Direct investments in the United States.....	-6	40	-87	28	25	41	-20	-14	-15	44	-107	-15	-28	-21						44	-4	26	
51	Other long-term investments.....	334	58	118	127	-12	78	-39	194	201	36	80	-40	-14	-28	(+)	(+)	(+)	(+)	(+)	12	(+)	4	
52	U.S. private short-term commercial and brokerage liabilities.....	-10	17	-74	118	9	17	43	28	28	28	-55	49	40	-10	(+)	(+)	(+)	(+)	(+)	-8	3	10	
53	U.S. Government liabilities associated with specific transactions.....	420	114	200	464	145	-54	177	105	314	00	200	198	-27	143	(+)	(+)				-1	-1	1	
54	U.S. Government nonmarketable, medium-term, nonconvertible securities.....	-43	-65	-1	-38	-54	-8	-2	29	-49	-96	-1	-39	-2	29						1		(+)	
55	U.S. Government nonmarketable, medium-term convertible securities.....	703	174	24	376		122	203	50	677	175	25	374	203	59						125			
56	Increase in short-term official and banking liabilities and in foreign holdings of marketable U.S. Government bonds and notes (decrease (-)).....	1,564	192	152	2,216	-168	201	720	1,441	666	84	32	1,466	602	929									

\* Preliminary. \* Revised. n.a. Not available. - Less than \$500,000.

The data on military expenditures for the fourth quarter of 1964



Annual, Third and Fourth Quarters, 1963 and 1964

of Dollars

Canada—Cont.				Latin American Republics and Other Western Hemisphere				Japan				Australia, New Zealand and South Africa				Other countries in Asia and Africa				International Institutions and unallocated <sup>1</sup>				Line									
1964				1963				1964				1963				1964				1963					1964								
Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV		Year	III	IV	Year	III	IV	Year	III	IV
0,584	1,553	1,740	1,408	1,447	1,436	n.a.	n.a.	n.a.	2,274	567	850	2,514	532	679	1,867	266	332	1,468	386	418	6,347	1,427	1,746	n.a.	n.a.	n.a.	318	74	82	334	77	95	1
6,604	1,553	1,756	5,995	1,444	1,623	6,749	1,636	1,632	2,274	567	850	2,514	532	679	1,867	266	332	1,468	386	418	6,613	1,372	1,619	6,375	1,574	1,783	318	74	82	334	77	94	2
4,791	1,129	1,241	3,622	876	972	4,217	1,039	1,179	1,811	449	622	1,990	448	632	816	180	242	1,143	296	320	2,871	947	1,096	4,190	1,023	1,161							3
138	38	38	340	89	89	370	102	96	148	38	37	188	44	44	48	14	18	63	17	18	246	63	60	206	72	72	180	84	49	105	39	44	4
433	140	78	579	104	90	404	116	106	20	0	0	25	0	3	20	7	9	23	0	0	32	13	6	38	13	5							5
210	58	69	841	94	94	337	82	91	90	23	20	107	20	32	80	21	28	98	24	26	196	43	53	220	62	60	83	20	23	85	21	23	6
6	2	2	13	1	1	57	15	14	9	2	2	2	2	2	(*)	(*)	(*)	(*)	(*)	(*)	59	24	27	110	24	30			(*)	(*)	(*)	(*)	7
30	5	6	17	2	2	38	4	4	23	4	10	10	3	3	20	4	8	30	0	4	21	5	6	37	8	11	11	5	1	1	(*)	(*)	8
638	112	238	868	214	282	1,020	290	296	7	7	8	29	0	10	62	9	20	108	19	30	1,042	227	309	1,261	328	283	19	5	4	84	5	18	10
308	87	97	100	38	40	121	48	54	107	36	31	150	37	40	37	4	8	27	0	8	58	14	14	72	16	21	44	12	11	44	12	10	11
			320	24	30	123	38	37	81	11	4	33	18	6	3	3	3	3	2	1	161	35	44	178	36	52	(*)			1			12
5,471	1,679	1,338	4,378	1,353	1,380	6,612	1,426	1,446	2,801	643	642	2,336	637	635	841	247	286	796	201	199	3,116	797	780	3,458	820	884	433	188	185	700	204	184	13
4,281	1,191	1,136	4,044	994	1,066	4,148	950	1,009	1,497	433	388	1,771	480	487	634	190	169	601	140	136	2,234	600	571	2,380	669	669	89	15	23	50	21	37	14
124	33	32	200	52	52	223	50	50	118	30	28	127	33	33	62	11	13	46	13	13	115	32	30	150	30	30	462	105	102	428	105	112	15
549	300	300	994	168	160	790	198	167	32	14	10	60	12	18	12	8	3	33	5	3	106	30	11	69	34	12							16
87	14	15	113	29	31	168	38	29	6	1	2	7	2	2	1	(*)	1	(*)	(*)	(*)	0	1	1	4	1	1	(*)	(*)	(*)	(*)	(*)	(*)	17
15	3	4	89	23	21	59	23	23	12	3	3	16	4	4	8	3	3	17	4	6	136	80	34	141	30	87	73	50	8	111	60	20	18
249	56	51	171	48	49	179	43	45	808	88	84	301	73	73	106	29	24	104	29	27	461	119	121	509	130	124	1	1					18
290	58	63	61	14	17	77	20	22	32	8	9	41	9	12	8	1	2	7	5	2	30	8	8	40	10	11	16	4	4	11	3	2	20
85	16	18	11	2	2	9	2	2	24	6	7	29	6	0	0	1	1	1	1	1	13	5	6	17	4	5	71	18	14	79	19	19	21
1,632	-13	353	630	34	256	n.a.	n.a.	n.a.	173	4	306	178	-55	40	336	13	136	700	173	228	3,237	620	305	n.a.	n.a.	n.a.	-315	-124	-73	-378	-122	-84	22
1,632	-13	353	630	31	243	1,217	247	284	173	4	306	178	-63	40	336	13	136	700	173	228	2,843	578	323	2,917	666	619	-315	-134	-73	-378	-122	-84	23
-38	-9	-11	-65	-34	-114	n.a.	n.a.	n.a.	-32	-2	-7	-33	-0	-20	-3	-1	-3	-11	-3	-3	-3,386	-457	-517	n.a.	n.a.	n.a.	-148	-19	-36	-148	-18	-90	24
-36	-8	-10	-69	-34	-101	-342	-70	-34	-33	-8	-7	-33	-0	-20	-3	-1	-3	-11	-3	-3	-1,634	-482	-591	-1,727	-418	-403	-145	-19	-80	-148	-18	-40	25
-9	-3	-4	-110	-20	-34	-87	-21	-20	-26	-7	-8	-20	-8	-3	-0	-1	-2	-7	-2	-2	-222	-64	-68	-228	-58	-58	-3	-3	-2	(*)	-2	26	
			-55	-3	-13	n.a.	n.a.	n.a.													-674	-60	-124	n.a.	n.a.	n.a.							27
-27	-2	-7	-22	-4	-73	-249	-49	-64	(*)	(*)	(*)	-1	-1	(*)	-1	-1	(*)	(*)	(*)	(*)	-1,339	-320	-214	-1,423	-242	-326	-148	-10	-77	-138	-18	-38	28
			-22	-4	-73	-249	-49	-64	(*)	(*)	(*)	-1	-1	(*)	-1	-1	(*)	(*)	(*)	(*)	-73	-18	-18	-78	-19	-20				(*)	(*)		29
-1,612	-228	-696	-786	-113	-803	-1,439	-439	-574	-888	-118	-384	-183	-53	-231	-32	28	-34	-140	-42	-87	-1,781	-248	-622	-8,690	-430	-847	-145	7	-57	-46	31	-54	30
-1,612	-228	-697	-787	-113	-804	-1,442	-442	-577	-891	-118	-385	-183	-53	-231	-32	28	-34	-140	-42	-87	-2,077	-11	-268	-891	-130	-232	-70	7	8	-3	14	31	
-228	-17	-169	-230	21	-167	-280	-54	-74	-108	-15	-6	-60	-16	-14	-11	11	-60	-132	-22	-43	-238	-27	-98	-845	-51	-130	-27	1	8	-25	10	-1	32
-780	-44	-353	-36	-23	-208	-14	-128	-104	-62	-5					-17						-48	-11	-22	-116	-18	-49							33
87	17	23	10	2	8	14	2	16	0	3	(*)	18	2	1	15	8	6	14	3	8	10	2	2	7	2	3	12	8	2	17	4	3	34
17	28	-4	-2	3	-2	-14	-7	-8	-20	-8					-10	2	9	13	3	4	7	20	-2	15	(*)	14	-48	8	8	11	(*)	3	35
-112	-208	18	24	22	-121	-28	-84	-120	-30	-66	-134	-22	-22	-22	-4	24	-41	-14	-22	-14	-4	-34	-40	-34	-6							36	
-470	40	-51	-111	-89	-45	-639	-182	-241	-463	-40	-305	-627	-40	-190	-19	-4	-12	-14	-6	-1	-48	23	-90	-212	-41	-88	(*)	(*)	(*)	(*)	(*)	(*)	37
	-3	-3	-34	-41	-16	-252	-145	-53	-53	4	5	51	21	3	33	8	4	13	4	5	-1,314	-279	-364	-1,398	-271	-336	-75						38
			218	34	102	-470	-165	-94	-93	-9	-3	-16	-8	-3	(*)						-1,144	-250	-362	-1,340	-311	-271	-78						39
						188	27	76	81	12	6	63	20	3	17	4	4	12	3	8	122	34	30	107	30	40	8						40
			34	4	22	64	4	6				16	4										3	3									41
			-79	-11	10	-64	-20	-34	-21	1	2																						

at a new high of \$587 million for the year, and a sizable amount went to Japan. Information collected by the Treasury on loan commitments by banks indicated that the fourth quarter outflow was not a development limited to that period but could be expected to continue, and even to rise.

Commercial enterprises added nearly \$600 million to their short-term foreign assets in 1964, though the fourth quarter rate was smaller. Most of the outflow was for the acquisition of liquid financial assets in Canada and Europe.

#### Direct investments

Capital outflows for direct investments abroad maintained a steady rate during the first three quarters of the year but accelerated in the last quarter. For the entire year direct investment reached a near-record of \$2.3 billion. Over half of the 1964 total, and most of the increase in the flow from 1963 to 1964, went to Europe, largely to the Common Market countries. Flows to other areas did not change significantly from the year before.

Most of the net outflows were concentrated in manufacturing and petroleum; investments in each of these

major industries accounted for about 40 percent of the fourth quarter flow. The capital movements in the fourth quarter were mainly large flows of funds between U.S. parent companies and their existing foreign affiliates, with only a small part due to new acquisitions of foreign companies.

#### Income on investment

U.S. income receipts from direct investment in 1964 rose by \$0.5 billion to \$3.6 billion. Part of the rise included income from African oil fields which began producing in 1964. Within the year, seasonally adjusted income receipts were high in each of the first three quarters of the year but declined in the fourth. The first quarter data included receipts deferred from 1963 to take advantage of the corporate tax reduction in 1964. The dip in the fourth quarter was in part, perhaps, due to similar deferments into 1965. These and other factors accounting for the fourth quarter decline were only partly offset by a substantial special dividend to a U.S. company from its Canadian subsidiary. Income receipts from other private investments gained steadily

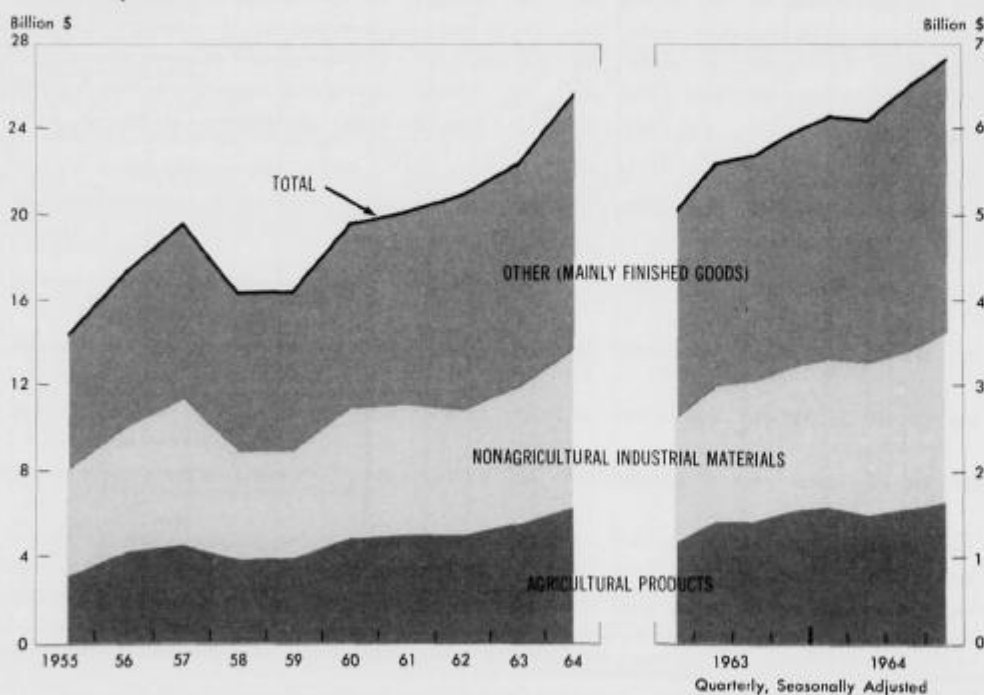
through the year and topped the 1963 amount by \$200 million.

### Changes in Government Transactions

U.S. Government grants and capital outflows, which were exceptionally high in 1963, were reduced in 1964 by \$245 million. Part of this reduction represented a \$60 million sell-off in the fourth quarter to U.S. commercial banks of an Export-Import Bank loan to Venezuela. Of this total, \$45 million is scheduled to mature in more than one year, and is reflected in the rise in long-term bank loans; the remainder is included among short-term bank loans. Venezuelan liquid assets held in U.S. banks were shifted to long-term time deposits in an amount corresponding to the long-term part of the loan. This move reduced U.S. liquid liabilities by \$45 million.

U.S. military deliveries abroad rose by \$100 million in 1964 and military expenditures fell by nearly the same amount, so that the net effect on the balance of payments was favorable by almost \$200 million. The increase in military sales reflected the moving out of deliveries on earlier contracts in larger volume than in 1963. Military expenditures were reduced fairly steadily during 1964 as further attempts were made to cut back dollar outflows under Government programs.

### U.S. Exports



### Merchandise Exports<sup>1</sup>

Exports expanded by 15 percent to a record \$25.2 billion in 1964, and the U.S. net export surplus rose to \$6.6 billion, the highest since the early post-war years. The \$1.6 billion rise in the net export surplus from 1963 to 1964 reflected large changes in the trade balances with Western Europe, Latin America, and Australia and South Africa.

In the first half of the year, U.S. merchandise exports, adjusted to the balance of payments basis and corrected for seasonal variation, rose only slightly above the high rate reached in the last quarter of 1963. In the second half of the year, however, the rate

<sup>1</sup> Merchandise trade section was written by Max Lechter.

(annual basis) was \$1.8 billion higher than in the first six months. About one-fourth of that gain represented accelerated shipments in anticipation of the dock strike.

From the third to the fourth quarter of 1964, merchandise exports rose by over \$300 million, with one-third of the advance reflecting strike-hedge shipments.

U.S. Exports,<sup>1</sup> Agricultural and Nonagricultural, 1962-1964  
(Millions of dollars)

	Total	Agricultural	Nonagricultural
Calendar year:			
1962	20,576	5,034	15,542
1963	21,980	5,585	16,404
1964	25,219	6,332	18,887
Quarters (seasonally adjusted):			
1963—IV	5,917	1,541	4,376
1964—I	6,108	1,587	4,521
II	6,053	1,502	4,551
III	6,372	1,575	4,797
IV	6,686	1,640	5,046
Change from preceding year:			
1963 (\$ mil)	+1,413	+551	+862
(Percent)	+6.9	+10.9	+5.5
1964 (\$ mil)	+3,230	+747	+2,483
(Percent)	+14.7	+13.4	+15.1
Change from preceding quarter:			
1964—I	+191	+46	+145
II	-55	-85	+30
III	+319	+73	+246
IV	+314	+65	+249

1. Adjusted to a balance-of-payments basis; excludes goods sold or transferred under military-agency programs.

NOTE.—Seasonally adjusted agricultural and nonagricultural quarterly figures may not add to actual annual totals.

Two other unusual movements in the export trade had offsetting effects on the total. Silver exports in the fourth quarter were exceptionally high, exceeding average quarterly outflows in the preceding three quarters by about \$60 million. An estimated loss in exports of automotive parts of nearly the same magnitude was apparently caused by the automobile strikes in the fourth quarter.

Western Europe, the largest market area for U.S. exports, accounted for \$1.0 billion of the \$3.2 billion export advance from 1963 to 1964; in the similar rise from 1962 to 1963 the increase in exports to that area was less than \$450 million. Exports to Canada rose by over \$650 million in 1964 as compared with \$215 million the previous year; the advance raised Canada's share of the total U.S. export gain from 15 to 20 percent. Other industrialized countries which took a larger share of the export rise in 1964 than in 1963 were Australia

and South Africa. Japan was the only major industrialized market where the 1963-64 export increase fell below the one recorded for the preceding year. Special wheat purchases accounted for the export rise to the Soviet Bloc in the first half of 1964.

Exports to Latin America, which declined during 1963 while exports to other countries rose, advanced in 1964 by nearly \$525 million, partly as a result of increased U.S. Government aid. Higher U.S. investments, and expanded export earnings of these countries from higher prices for certain food and raw materials during 1964 provided additional bases for an expansion of their imports from this country.

### Agricultural exports

Agricultural exports, at record levels in every quarter of 1964 except the second, reached a new annual high of \$6.3 billion. That total exceeded the previous high mark scored in 1963 by about \$650 million, after allowance for dock-strike distortions affecting both years. Commercial sales, moreover, accounted for 85 percent of the total export increase, but that gain was heavily concentrated in the advance between the first half of 1963 and the first half of 1964.

By the fourth quarter of 1964, agricultural exports were at a seasonally

adjusted annual rate of \$6.6 billion. If corrected for strike effects, this rate is estimated to have at least matched the previous peak rate of \$6.3 billion set in the first quarter of 1964, when the bulk of the special grain shipments to the USSR was made.

Total wheat exports moved moderately downward after the first quarter but this drop was more than offset by a concurrent strong advance in exports of animal and vegetable oils, accompanied by gains in dairy products, meats and various animal feeds.

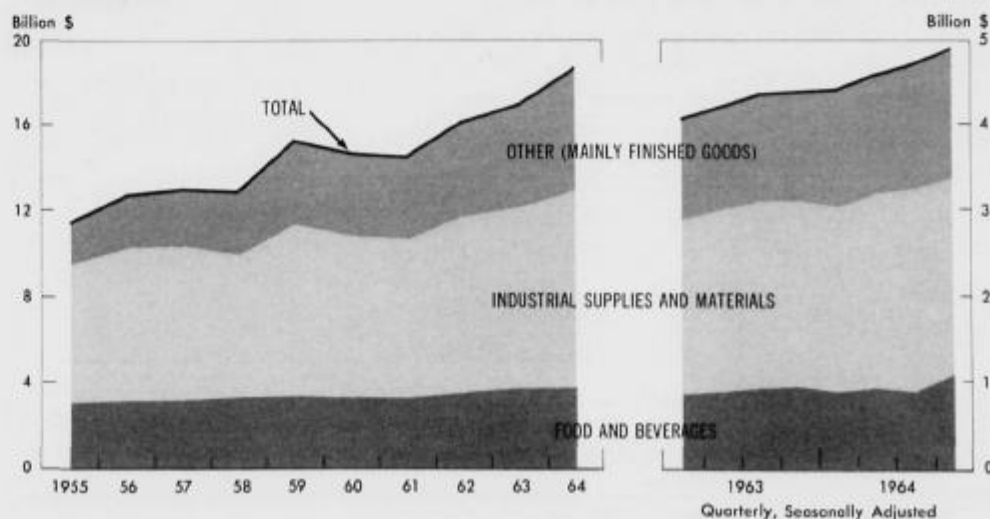
The pressure of rising living standards abroad has had considerable impact on the advance in U.S. exports of oils, meats and dairy products to industrialized countries not presently producing these commodities in adequate amounts to meet domestic requirements. Increases in sales of these commodities to Western Europe nearly offset the contraction in that area's import requirement for wheat, after the first quarter of 1964.

A step-up in PL 480 financing largely explains the recent increased outflow of wheat and other agricultural products to the less industrialized countries of the world, particularly India.

### Nonagricultural exports

The fourth quarter seasonally adjusted advance in exports of non-

### U.S. Imports





**Table 4.—Analysis of Major Government Transactions**  
(Millions of dollars)

Item		Calendar year 1963	Calendar year 1964				
			Total <sup>a</sup>	I	II	III <sup>b</sup>	IV <sup>c</sup>
TABLE 4A.—GOVERNMENT GRANTS (EXCLUDING MILITARY AND CAPITAL OUTFLOWS)							
Not adjusted for seasonal variations							
Outflows under assistance programs:							
1	Under farm products disposal programs.....	1,668	1,771	399	488	405	479
2	Under Foreign Assistance Act and related programs.....	2,145	2,011	442	529	520	520
3	Under Export-Import Bank Act.....	509	338	88	106	78	60
4	Subscriptions to IDA and IDB.....	62	112	—	50	—	62
5	Other assistance programs.....	97	158	31	41	28	58
Foreign currency claims acquired in the collection of—							
6	Principal.....	94	87	23	18	22	24
7	Interest.....	148	170	38	46	38	48
8	Less: Foreign currencies used for U.S. Government uses other than grants or loans.....	231	322	88	96	60	78
9	Advances under Exchange Stabilization Fund agreements, net.....	25	-30	-12	-3	-8	-7
10	Other, net (including changes in administrative cash holdings).....	5	-18	-15	-3	-10	10
11	<b>Total, Government grants and capital outflows (table 3, lines 28 + 39 + 42).....</b>	<b>4,522</b>	<b>4,277</b>	<b>906</b>	<b>1,176</b>	<b>1,013</b>	<b>1,182</b>
Adjusted for seasonal variations							
12	<b>Total, Government grants and capital outflows (table 1, line 1-6).....</b>	<b>4,522</b>	<b>4,277</b>	<b>928</b>	<b>1,103</b>	<b>1,098</b>	<b>1,148</b>
13	Less: Estimated transactions involving no direct dollar outflows from the United States.....	3,635	3,570	781	911	921	957
14	Expenditures on merchandise in the United States.....	2,720	2,839	637	710	750	736
15	Expenditures on services in the United States.....	601	581	135	145	148	153
16	Military sales financed by credits (including short-term, net) <sup>1</sup> (line C-2, below).....	17	-18	-10	3	-11	(x)
17	Government credits to repay prior Government loans <sup>1</sup> .....	170	120	28	17	24	51
18	Government loans to repay private credits.....	33	—	—	—	—	—
19	Increase in Government liabilities associated with Government grants and capital (including changes in retained accounts) (line B-18, below).....	94	48	-9	36	4	17
20	<b>Equals: Estimated dollar payments to foreign countries and international institutions through Government grants and capital operations.....</b>	<b>887</b>	<b>707</b>	<b>147</b>	<b>192</b>	<b>177</b>	<b>191</b>
TABLE 4B.—CHANGES IN GOVERNMENT LIABILITIES							
Not adjusted for seasonal variations							
1	Increase in Government liabilities associated with specific transactions (table 3, line 47).....	429	461	143	-54	177	195
2	Associated with Government grants and capital outflows.....	94	48	-12	11	1	48
3	Non-interest-bearing securities issued to IDA.....	13	15	—	-22	—	37
4	Non-interest-bearing securities issued to IDB.....	—	25	—	25	—	—
5	Non-interest-bearing securities issued to UN for special programs.....	43	30	-1	23	-5	13
6	Foreign funds retained in Government accounts, to be used for purchases in the United States.....	36	-15	-5	-14	6	-2
7	Other.....	2	-7	-6	-1	(x)	(x)
8	Associated with military exports (advance collections less deliveries) <sup>1</sup> (line C-4, below).....	334	206	151	-64	-28	147
9	Associated with other Government sales and miscellaneous Government operations.....	1	3	4	-1	(x)	(x)
10	Associated with purchase of Columbia River downstream power benefits.....	—	204	—	—	204	—
11	<b>Net sales [net redemptions (-)] of nonmarketable, medium-term, nonconvertible securities (table 3, line 48).....</b>	<b>-43</b>	<b>-36</b>	<b>-55</b>	<b>-8</b>	<b>-2</b>	<b>29</b>
12	Export-Import Bank Portfolio Fund Certificates of Participation.....	18	-3	—	-2	—	-1
13	Treasury securities:						
14	Payable in dollars.....	13	-13	-5	-6	-2	—
15	Payable in foreign currencies.....	-74	-20	-50	(x)	(x)	30
16	<b>Total, increase in Government liabilities other than marketable or convertible securities.....</b>	<b>386</b>	<b>425</b>	<b>88</b>	<b>-62</b>	<b>175</b>	<b>224</b>
Adjusted for seasonal variations							
17	<b>Total, increase in Government liabilities other than marketable or convertible securities (table 1, line 11-11).....</b>	<b>386</b>	<b>425</b>	<b>91</b>	<b>-37</b>	<b>178</b>	<b>193</b>
18	Increase in Government liabilities associated with specific transactions.....	429	461	146	-29	180	164
19	Associated with Government grants and capital outflows (line A-19, above).....	94	48	-9	36	4	17
20	Associated with military exports <sup>1</sup> (line C-9, below, and table 1, line B-2).....	334	206	151	-64	-28	147
21	Miscellaneous Government nonliquid liabilities (table 1, line A-11, and table 2, line B-9).....	1	207	4	-1	204	(x)
22	Associated with other Government sales and miscellaneous Government operations.....	1	3	4	-1	(x)	(x)
23	Associated with Columbia River transaction.....	—	204	—	—	204	—
24	<b>Net sales [net redemptions (-)] of nonmarketable, medium-term, nonconvertible securities (table 1, line B-3, and table 2, line B-8).....</b>	<b>-43</b>	<b>-36</b>	<b>-55</b>	<b>-8</b>	<b>-2</b>	<b>29</b>
TABLE 4C.—MILITARY CASH RECEIPTS <sup>2</sup>							
Not adjusted for seasonal variations							
1	Exports of military goods and services (excluding military grants) (table 3, line 9).....	659	758	193	189	168	208
2	Less: Military sales financed by credits (including short-term, net) (line A-16, above).....	17	-18	-10	3	-11	(x)
3	Principal collections on Defense Department credits.....	6	2	(x)	1	1	(x)
4	Increase in liabilities associated with military exports (line B-8, above).....	334	206	151	-64	-28	147
5	<b>Total, military cash receipts.....</b>	<b>982</b>	<b>984</b>	<b>354</b>	<b>123</b>	<b>152</b>	<b>355</b>
Adjusted for seasonal variations							
6	<b>Total, military cash receipts (table 2, line B-2).....</b>	<b>982</b>	<b>984</b>	<b>371</b>	<b>85</b>	<b>166</b>	<b>362</b>
7	Military sales (table 1, line 11-4).....	659	758	210	151	182	215
8	Increase in indebtedness to Government for military credits (lines C-3-C-2, above).....	-11	20	10	-2	12	(x)
9	Increase in liabilities associated with military exports (line B-19, above, and table 1, line B-2).....	334	206	151	-64	-28	147

<sup>a</sup> Less than \$500,000. <sup>b</sup> Preliminary. <sup>c</sup> Revised.

1. Includes estimated net accumulation of foreign currency from principal repayments recorded in line A-6.

2. The entries for the 6 quarters in fiscal years 1964 and 1965 for military transactions are estimates based upon incomplete reports.

Source: U.S. Department of Commerce, Office of Business Economics.

agricultural commodities (excluding special category goods and aircraft) was approximately equal to the corresponding rise a quarter earlier. Non-agricultural exports in the last half of 1964 were at an annual rate of about \$1.5 billion above the total for the first six months of the year—a pronounced improvement even after allowance for the dock strike pre-shipments in the second half.

Capital equipment and industrial materials together accounted for more than the total nonagricultural export gain in the fourth quarter, as autos and parts and fertilizer declined. The somewhat better export showing of industrial materials than of capital equipment in the fourth quarter may reflect the fact that primary supplies were more readily responsive to the push for accelerated pre-dock strike shipments than the machinery category.

Civilian aircraft deliveries in 1964 were higher than a year ago but at \$300 million had recovered only half of the \$80 million export loss of 1962-63. A further improvement in U.S. aircraft exports is expected for the current year which will bring foreign deliveries above the 1962 level but still well below the \$550 million peak of 1960.

In comparing the figures for the last three calendar years, the sharp upswing in capital equipment exports (excluding special category and aircraft) in 1964 is particularly noteworthy. This category, predominantly machinery, scored an increase of about \$900 million from 1963 to 1964 as compared with a gain of little more than \$200 million between 1962 and 1963. The 1963-64 advance of some \$950 million in exports of nonagricultural industrial materials, on the other hand, was much closer to the \$550 million gain in 1962-63.

Total nonagricultural exports to Canada (excluding special category and aircraft) advanced by \$175 million between 1962 and 1963, and by \$620 million between 1963 and 1964. Shipments of capital equipment have been most important in the gains. Some of the strength in these sales to Canada may reflect pressures on Canadian manufacturing capacity, caused by the sustained economic upsurge there. The

year-to-year changes also included higher shipments of automobiles and parts.

Nonagricultural exports to Western Europe advanced by about \$750 million between 1963 and 1964, or by 40 percent more than the advance of \$530 million the year before. A large part of the increase in 1964 was in industrial supplies and materials, particularly chemicals and metals, to meet the constantly expanding needs of growing European industry. Part of the rise in U.S. sales may also be attributed to an improvement in the U.S. competitive position. For the past 5 years, U.S. nonfarm wholesale prices have remained fairly stable, while European wholesale prices have increased about 10 percent, and during 1964 alone, by approximately 3 percent.

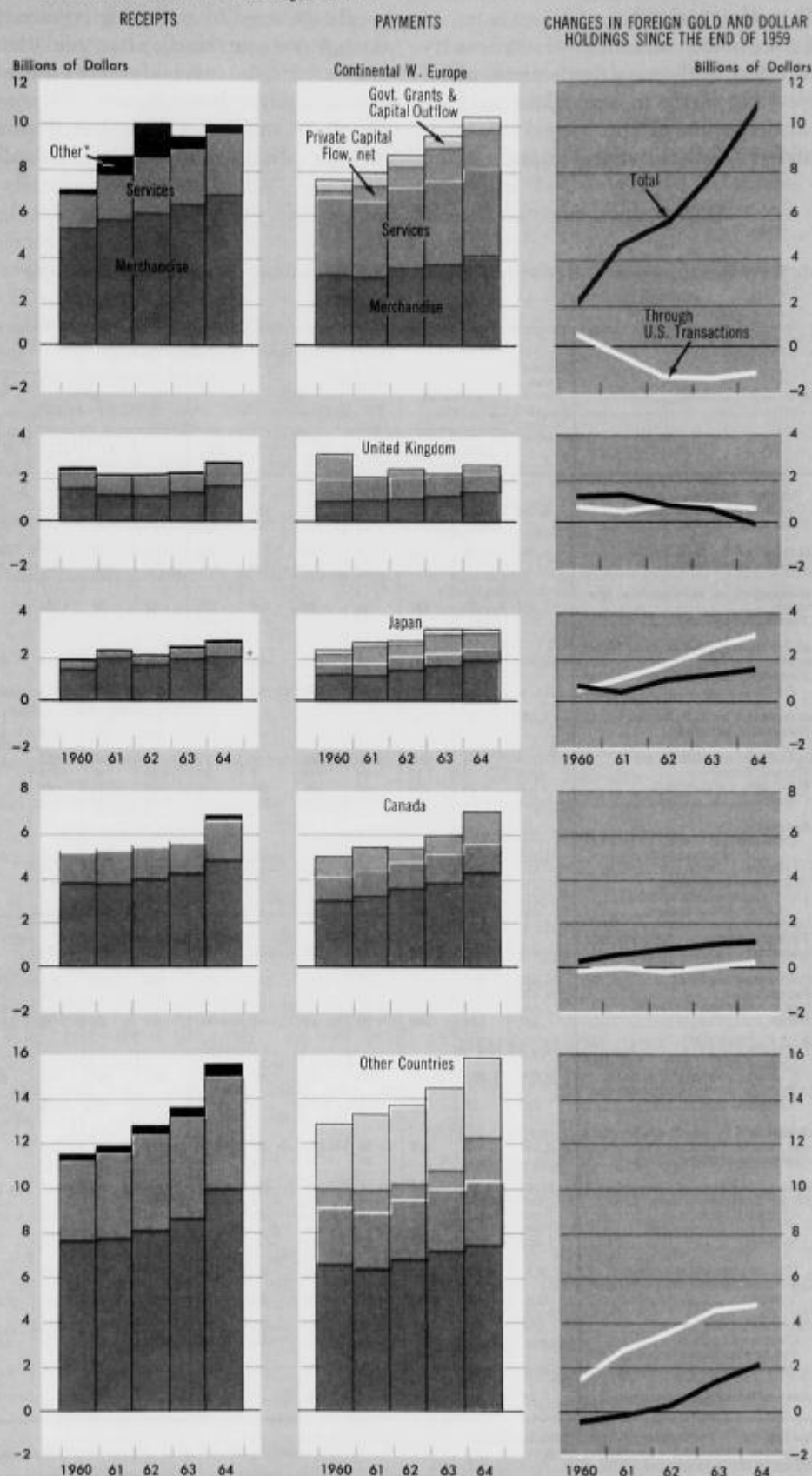
Nonagricultural exports to Japan were only moderately higher in 1964, and may have been affected by Japanese policies to hold internal demand within the limits of domestic production and net foreign exchange earnings. Higher foreign exchange earnings by Latin America, Australia and South Africa stimulated the greatly expanded flow of exports to those countries. Shipments to less-developed areas outside the Western Hemisphere, however, rose less in the more recent period than in 1962-63.

### Merchandise Imports

Merchandise imports in the fourth quarter of 1964 rose to a new peak of \$4.9 billion, after adjustment for seasonal variation, the seventh successive quarterly advance. The \$185 million gain over the July-September period, however, may include more than \$100 million which can be attributed to special factors.

Although past experience indicates that labor disturbances at the ports have had a much milder effect on imports than on exports, an estimated \$60 to \$70 million of the \$185 million increase in the last three months of the year is believed to represent precautionary shipments from abroad in anticipation of a dock strike after the expiration date of the Taft-Hartley

## U.S. Transactions With Major Areas



\*Repayments on Government loans and investments in non-liquid U.S. Government Obligations

U.S. Department of Commerce, Office of Business Economics

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cooling-off period. The accelerated arrivals included mainly tobacco, alcoholic beverages, and passenger cars.

Imports of steel mill products rose by about \$30 million as domestic demand increased, partly to expand inventories in anticipation of the May 1965 labor contract deadline. Steel imports in the

preceding five quarters, corrected for the usual seasonal influences, had hardly wavered from the high quarterly average rate attained after mid-1963.

An additional special feature affecting fourth quarter imports was the steep rise of \$80 million in the value of coffee imports, which followed an unusually

large contraction in the preceding quarter. Part of the increase may have been in compensation for a lag in coffee arrivals during the January-September period. For 1964 as a whole the quantity of coffee imports was below the totals for the preceding two years, but with prices in 1964 sharply higher the value of coffee imports rose \$240 million over 1963.

Table 5.—Movements of U.S. Capital Reported by Banks and Nonfinancial Concerns

(Millions of dollars)

	Amount outstanding end of Dec. 1964	Changes (decreases (-))									
		Calendar year		1963				1964			
		1963	1964*	I	II	III	IV	I	II	III*	IV*
Total "other" long-term capital outflow (table 2, line 24, p. 14)	5,838	581	1,279	86	128	114	330	237	127	894	391
Seasonally adjusted				49	99	134	290	277	157	808	398
Total reported by U.S. banks	2,971	1,739	342	-27	178	116	1,472	245	71	348	336
Seasonally adjusted				13	148	138	1,448	268	101	344	381
Total reported by nonfinancial concerns	1,487	1,168	1,337	48	-50	-2	-1,142	12	56	1,284	5
Seasonally adjusted				40	-50	-2	-1,139	12	56	1,284	5
Total short-term capital outflow (table 3 line 37)	10,253	734	2,197	-84	632	-15	242	124	405	199	678
Seasonally adjusted (table 1, line 1-12)				-38	602	-4	219	170	444	404	699
Total reported by U.S. banks	7,416	742	1,526	-37	492	-74	491	409	531	-84	672
Seasonally adjusted				-38	493	47	577	449	491	179	445
Major financial centers, total	1,573	81	282	-45	207	-177	17	86	348	-285	152
United Kingdom	319	4	82	-24	-9	7	28	-39	148	-50	28
EEC and Switzerland	825	-22	109	-43	188	-84	-9	23	55	-48	78
Canada	729	85	81	21	108	-100	46	75	142	-180	54
By type:											
Commercial and financial claims payable in dollars	1,063	26	242	-28	97	-82	49	18	219	-153	106
Loans	441	-10	84	-19	-2	-39	28	38	60	-27	34
Acceptance credit	99	na	18	na	na	11	-16	0	3	-7	18
Collections outstanding	173	27	28	2	(*)	13	12	23	-2	2	13
Other dollar claims	386	na	84	na	na	-87	17	-47	108	-121	94
Foreign currency deposits and claims	491	25	40	-18	110	-95	26	41	137	-132	4
Other countries, total	5,848	681	1,246	-31	185	205	414	390	185	201	518
Japan	2,933	481	452	11	120	19	281	226	70	24	140
Latin American Republics	2,069	97	468	-72	38	89	43	57	77	124	218
Other	1,181	153	286	30	37	-5	91	65	85	53	140
By type:											
Commercial and financial claims payable in dollars	5,728	662	1,224	-37	185	97	407	348	104	194	516
Foreign currency deposits and claims	116	19	22	6	(*)	6	7	9	21	6	-6
Total reported by nonfinancial concerns	2,847	-8	579	16	139	-25	-129	215	74	280	4
Seasonally adjusted				16	139	-48	-60	161	94	258	4
Claims of commercial enterprises	2,763	-31	562	16	118	-25	-149	218	68	280	25
Major financial centers, total	1,067	-120	378	-4	97	-13	-195	182	17	203	-34
United Kingdom	258	-15	51	-40	5	18	8	6	27	124	-18
EEC and Switzerland	379	5	30	(*)	4	(*)	1	3	-21	-13	70
Canada	1,048	-110	280	37	88	-31	-204	179	11	94	2
Claims payable in dollars	n.a.	-82	n.a.	21	116	-84	-185	119	68	149	n.a.
Foreign currency deposits and claims	n.a.	-38	n.a.	-30	-19	21	-10	68	-48	84	n.a.
Other countries, total	1,096	80	316	26	21	-12	55	28	51	76	59
Claims payable in dollars	n.a.	94	n.a.	24	9	-13	30	-13	48	76	n.a.
Foreign currency deposits and claims	n.a.	-5	n.a.	1	19	1	-36	41	3	8	n.a.
Claims of brokerage concerns	84	28	-19		12		11		6		-19

\* Revised. \* Preliminary. n.a. Not available. \* Less than \$500,000.  
 1. Changes adjusted for variations in coverage and therefore do not necessarily correspond to changes computed from reported amounts outstanding.  
 2. The figures for the fourth quarter and the year 1963 reflect a transfer of about \$150 million in outstanding credits from a non-financial concern to U.S. banks.  
 3. Fourth quarter 1964 estimated on the basis of partial preliminary reports; amount outstanding at the end of December 1964 estimated on the basis of figures for the end of September 1964 plus the preliminary data on movements during the fourth quarter of 1964.  
 4. Includes \$24 million loaned to Canada in connection with Columbia River power development.  
 5. Excludes Exchange Stabilization Fund holdings.

### Annual import trends

The \$18.6 billion total for merchandise imports for the full calendar year represented a new high. The rise of about \$1,650 million above 1963 was nearly double the 1962-63 advance and about equal to the pronounced gain in 1962 over the cyclically low value in 1961.

In dollar terms, industrial supplies and materials accounted for \$750 million, or 45 percent of the total 1964 gain, and finished goods contributed most of the remainder. The total value of food and beverage imports registered only a mild upturn in 1964, which reflected primarily the steep 13 percent jump in 1964 coffee prices.

### Changes in Area Balances

Although the overall U.S. balance on regular types of transactions improved somewhat in 1964, there was some deterioration in the balances with Western Europe, Latin America, and less-developed African and Asian countries. In transactions with Australia, New Zealand and South Africa as a group, and with Japan and with Canada, however, some improvement occurred.

As shown in the following tabulation, the adverse change in the balance with Western Europe exclusive of the United Kingdom resulted from the large increase in the outflow of U.S. capital, together with a decline in the inflow of European capital. Those changes more than offset the favorable balance on goods and services, which rose by \$285 million, mainly because of the strong advance in U.S. exports.

The U.S. balance on transactions with the United Kingdom fluctuated sharply during the year, although on an annual basis there was no change from 1963 to

1964. As with other European countries, the merchandise export rise in 1964 was offset by larger U.S. capital outflows and reduced capital inflows. The shifts in short-term capital out-

in the second and third quarters and then reversed their movement in the fourth quarter, the balance showed a much more favorable position for the United States in 1964. This was due mainly to transactions during the first three quarters of the year. During the fourth quarter the difference from a year earlier narrowed considerably, but without the postponement of the annual service on the British loan, it would have been \$138 million larger.

The improvement in our balances in 1964 with Australia, New Zealand, and South Africa, as a group, and with Canada, resulted largely from substantial gains in our net merchandise export surpluses with those areas. The more favorable balance with Japan in 1964 stemmed mainly from reduced capital outflows there. The decline in new Japanese security issues purchased in this country because of the dampen-

ing effect of the interest equalization tax more than offset increased bank and other lending to Japan last year. Our net merchandise export surplus with Japan shrank as our imports from that country rose more rapidly than our exports.

The deterioration in the U.S. balance with the less-developed countries reflected increased U.S. capital flows and

U.S. Transactions with Western Europe, Excluding United Kingdom  
(Millions of dollars)

	Calendar year		October-December	
	1963	1964	1963	1964
Exports of goods and services	5,752	6,801	2,331	2,408
Imports of goods and services	7,160	7,744	1,380	1,985
Balance	1,572	1,057	951	423
Unilateral transfers, net	-325	-345	-90	-84
U.S. capital, net	-1,385	-1,970	-453	-622
Foreign capital, excluding liquid funds, net	213	83	190	107
Total balance	5	-582	16	-168

flows were especially marked. Exclusive of such volatile flows, which moved in heavy volume to the United Kingdom

U.S. Transactions with the United Kingdom  
(Millions of dollars)

	Calendar year		October-December	
	1963	1964	1963	1964
Exports of goods and services	2,662	2,480	678	754
Imports of goods and services	2,653	2,147	521	556
Balance	29	433	156	199
Unilateral transfers, net	-41	-46	-13	-14
U.S. capital, net	-155	-271	-10	73
Short-term, net	(11)	(-129)	(-35)	(80)
Foreign capital, net, excluding liquid funds	223	80	18	11
Total balance	96	95	123	269
Excluding U.S. short-term capital	85	225	173	189

Table 6.—Changes in Short-Term Official and Banking Liabilities and in Foreign Holdings of Marketable U.S. Government Bonds and Notes

[Millions of dollars]

	Amount out- stand- ing end of Dec. 1964	Changes during period									
		Calendar year		1963				1964			
		1963	1964*	I	II	III	IV	I	II	III	IV
I. Total (decrease—) (line 58, p. 14)	27,898	1,664	2,216	323	937	192	132	-108	281	739	1,441
II. By foreign holders:											
1. Foreign central banks and governments, total	14,348	870	698	-74	772	145	126	-399	92	186	810
a. As reported by U.S. banks	13,223	504	750	-179	302	15	70	-422	87	249	872
b. Other	1,125	466	-52	194	343	130	51	53	5	-83	-58
2. International Monetary Fund	300										
3. Foreign commercial banks	7,000	428	1,415	355	75	-81	8	224	90	678	481
4. Other international and regional institutions	1,717	-228	-248	-85	-48	-35	-112	-85	-25	-138	3
5. Other foreigners and undetermined	3,844	264	243	76	115	93	110	34	34	123	138
III. By type of liabilities:											
1. Deposits in U.S. banks	13,498	1,131	1,718	428	451	56	185	368	4	682	824
2. U.S. Government obligations:											
a. Bills and certificates payable in dollars	5,799	-641	189	-622	219	-152	-273	-582	-157	336	519
b. Bonds and notes (marketable)	2,405	871	-333	122	240	215	89	-2	-76	-126	-66
c. Nonmarketable certificates payable in foreign currencies		-18	-50		-25	-25	30				-30
3. Bankers' acceptances, commercial paper, time deposit certificates, and other liabilities	3,046	412	745	180	31	92	300	133	429	4	163
4. Other banking liabilities payable in foreign currencies	172	9	8		9	7	-4	-22	11	9	18

\* Revised. \* Preliminary. \* Less than \$200,000.

1. Excludes dollar holdings of the IMF except for those acquired by the IMF through gold sale to the U.S. with the option to reverse the transactions. These transactions amounted to \$200 million in 1964, \$200 million in 1963 and \$300 million in 1962. Other dollar assets of the IMF at the end of December 1964 were \$3,306 million.

2. Includes banking liabilities to foreign official institutions held through foreign branches of U.S. banks and foreign commercial banks.

Government grants, which were not fully offset by the rise in the U.S. export surplus.

Through transactions with both the United States and other countries, official monetary reserves and liquid dollar holdings of Western Europe exclusive of the United Kingdom rose by \$3.0 billion in 1964.

## PROGRAM TO IMPROVE BALANCE OF PAYMENTS

THE deterioration in the U.S. balance of payments in the fourth quarter of 1964 and the less than desired improvement in the balance for the year as a whole led to the formulation of new measures to reduce the deficit and to further strengthen the dollar in international markets.

On February 10, 1965 the President sent to Congress a message setting forth his balance of payments program. It is designed to attain improvement in the balance of payments primarily through the cooperation of U.S. financial and industrial enterprises.



## Principal Elements in Balance of Payments Program

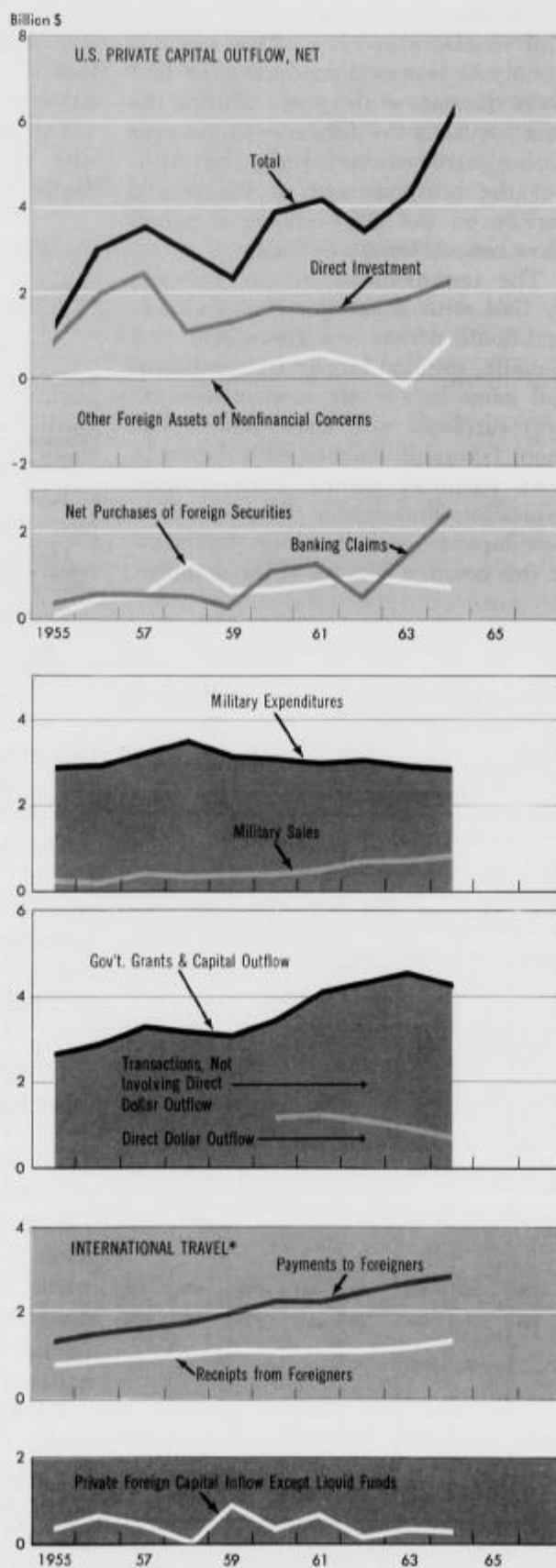
CHART 12

*Reduction of private capital outflows through voluntary business and banking cooperation and through extension of interest equalization tax*

*Further cutback in cost of defense and aid programs abroad*

*Narrowing of the payments gap through increased travel in the U.S. and legislation to reduce duty-free exemption on goods purchased abroad*

*Attraction of more investment from abroad through new tax incentives*



\*Includes passenger fares

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The President's program includes:

(1) Legislation to extend the Interest Equalization Tax Act to December 31, 1967, two years beyond its present expiration date, and to broaden coverage of the tax, retroactive to February 10, 1965, to include nonbank credit with maturities of one year and over.

(2) Immediate action under the authority provided by the Gore Amendment to the Act to apply the interest equalization tax to bank loans with maturities of one to three years.

(3) Voluntary restraints by the financial community to limit outflow of capital, under the guidance of the Federal Reserve System and the Treasury Department, with legislation to provide immunity from anti-trust laws for banks to the extent it is necessary to make this program effective.

(4) Extraordinary effort by U.S. industrial enterprises to improve the balance on their foreign transactions, primarily under the guidance of the Department of Commerce.

(5) Additional cutbacks in overseas dollar costs of U.S. defense and aid operations.

(6) Legislation to reduce the duty-free allowance of tourists from \$100 measured at wholesale values to \$50 measured at retail values; strengthening the "See the U.S.A. program," directing it to both American and foreign tourists.

(7) Legislation to remove tax deterrents to foreign investment in U.S. corporate securities in order to increase foreign investment in the United States.

(8) A more vigorous export promotion drive, and a further strengthening of the international competitive position of the United States by maintaining stable prices and wages.

To further reduce dollar outflows under the aid program, the Administrator of AID will continue to substitute, in so far as possible, U.S. goods and services for direct dollar aid. The Secretary of Defense will make further efforts to streamline overseas operations and to increase sales of military equipment to foreign defense partners.

## Implementation of program

Both the Federal Reserve Board and the Department of Commerce have

issued guidelines for the voluntary program set forth by the President.

The Federal Reserve Board has requested that each U.S. bank voluntarily limit foreign credits, unless they were guaranteed or arranged by the Export-Import Bank, so that at the end of March 1965 the amount outstanding will be no more than 5 percent greater than their level at the end of 1964. Dollar loans of foreign branches of U.S. banks are to be included within the 5 percent limit. Within that total, priority is to be given first to export credits, and then to loans to less-developed countries. Special care is also to be exercised to avoid outbacks in credits to Japan and Canada, which are heavily dependent on U.S. finance, and to the United Kingdom, which has recently gone through a difficult period in its balance of payments. In 1964 foreign assets reported by banks had advanced by nearly \$2.5 billion. (Not all of this amount represents the banks' own funds, however.) The 5 percent guideline for maximum expansion in 1965 would permit a net outflow of about \$0.5 billion. This would represent an appreciable improvement from the preceding year.

The Federal Reserve Board has also requested institutional lenders and investors other than banks to limit foreign investment. The amounts outstanding abroad are to be limited to a growth of 5 percent in 1965, the same goal set for banks. Deposits and other liquid funds placed abroad are not to exceed the level at the end of 1964, and during 1965 attempts are to be made to reduce them to the 1963 yearend level.

The Secretary of Commerce has asked that U.S. industrial concerns limit deposits and other liquid funds placed abroad, and wherever possible, without causing undue strain on countries subject to balance of payments problems, to repatriate such funds rapidly.

Each industrial concern has also been requested by the Secretary of Commerce to make special efforts to improve its individual balance of payments on certain of its foreign transactions in 1965 as compared with its actual performance in 1964. The program provides for great flexibility, leaving the choice of methods to improve the balance of selected foreign transactions

to the executive of each of the cooperating enterprises. The selected transactions include (1) receipts from exports to all countries; (2) receipts from fees, royalties and income on direct and other investment from developed countries other than Canada; and (3) outflows of capital through direct or other long-term investments to developed countries other than Canada. The Secretary has suggested that care be taken to minimize balance-of-payments effects of large investments. Preference by the companies might be given to those investments which can be financed by borrowing in foreign countries or will result in quick return flows of funds through higher exports or investment earnings. Where appropriate to the company and the host country, the balance could also be improved by local sales of equity interests in American subsidiaries. The program is not to inhibit investments of U.S. companies in less-developed countries.

### Methodological Note

Balance of Payments Adjustments to  
Merchandise Trade Data as Recorded  
by Bureau of the Census  
(Millions of dollars)

	1962	1963	1964
<b>EXPORTS</b>			
Recorded exports, excluding military grant-aid	20,949	22,367	26,522
Exports, adjusted to balance of payments basis	20,670	21,969	26,210
Adjustments (net) to recorded exports	-269	-296	-293
Additions to recorded exports			
Silver	114	120	212
Personal remittances in kind	51	41	45
Other, incl. electrical energy	49	83	23
Deductions from recorded exports	-539	-516	-455
Special adjustments for timing and valuation (net)	47	69	-80
<b>IMPORTS</b>			
Recorded general imports	16,369	17,151	18,898
Imports, adjusted to balance of payments basis	16,134	16,900	18,678
Adjustments (net) to recorded imports	-235	-155	-66
Additions to recorded imports			
Silver	150	157	173
Gold, monetary imports and net domestic consumption	70	70	100
Other, incl. electrical energy	7	7	7
Deductions from recorded imports	-487	-349	-242
Nuclear material imports of Government agencies	-280	-183	-111
Other imports (mostly military) of Government agencies	-170	-144	-124
Other	-37	-22	-7
Special adjustments for timing and valuation (net)	32	34	9

1. Includes principally Government sales and transfers of military goods; also includes exposed motion-picture film for rental, trade with the Canal Zone, and U.S. grains exported for storage in Canada.

2. Includes adjustments for undervaluation of bananas as follows: 1962 (+\$34 million); 1963 (+\$34 million); 1964 (Jan.-May), (+\$8 million); after May, recorded data were properly valued.

Source: Office of Business Economics, Bureau of Payments Division.

### Manufacturers' Sales and Inventory Expectations

(Continued from page 4)

"about right" category at yearend. This ratio has shown little change in 3 years.

Metal fabricators have reported a steady decline in their "high" ratio, from 19 percent in March 1964 to 16 percent in December. Primary metals producers continue to view their stocks as satisfactory, with only 7 to 8 percent of stocks considered to be in the "high" category during 1964.

Most nondurable goods producers' stocks—87 percent—were considered "about right" on December 31, 1964. Nine percent of such stocks were classified as "high" at the yearend, matching the relatively low June ratio. In the year and a half prior to June 1964 the "high" ratio had ranged from 10 percent to 14 percent. Most major soft goods industries showed a decline in the "high" percentage during 1964.

The stock-sales ratio of firms which judged their inventories "high" as of December 31 was 2.2 on that date, as compared with a ratio of 1.6 for firms with "about right" inventories. For the durable goods manufacturers, "high" inventory firms reported a stock-sales ratio of 2.3; firms in the "about right" group reported a ratio of 1.9. The nondurable goods manufacturers in the "high" group had a ratio of 1.9, well above the 1.3 for the "about right" group. The small number of firms in the "low" category did not yield meaningful results.

As can be seen in table 2, there were only minor shifts between September 30 and December 31 of last year in the evaluations of inventory condition by manufacturers as a whole. When these shifts are examined on a company basis, however, it is found that about 17 percent of the reporting panel of companies changed their classification between these periods. More than half of these firms shifted their classification from an unbalanced position (mostly "high") on September 30 to "about right" on December 31. Almost 45 percent shifted the opposite way, from "about right" to an unbalanced position; two-thirds of these moved to the "high" category. Shifts between "low" and "high" were negligible.